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Understanding the Impact of Merger and Acquisition Activities on Indian Banking Sector from Customer's Perception

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Abstract
This research investigates the impact of merger and acquisition (M&A) activities on customer perceptions within the Indian banking sector. Through a mixed-methods approach, data was collected from 515 customers of public sector banks, focusing on factors such as service quality, accessibility, trust, and perceived value. The findings reveal a mixed response from customers, with a significant portion acknowledging improvements in service quality and increased accessibility post-M&A, while others express concerns regarding trust, responsiveness, and empathy of banks. Notably, both increased and decreased trust towards banks post-M&A are reported, emphasizing the importance of communication and transparency during M&A processes. Perceptions of service quality dimensions vary among customers, highlighting the need for consistent and customer-centric service delivery. Despite challenges, M&A activities hold potential for driving positive changes in the banking sector, including efficiency gains and enhanced service offerings. To realize these benefits, banks must prioritize customer satisfaction, trust, and service quality, fostering transparency and engagement throughout the M&A process. Continuous dialogue with customers and strategic implementation of feedback are recommended to navigate the complexities of M&A activities successfully.

Keywords: Merger and acquisition, Indian banking sector, customer perceptions, service quality, trust

Introduction:

The Indian banking sector has witnessed a significant transformation over the past few decades, marked by a series of merger and acquisition (M&A) activities aimed at consolidation, expansion, and efficiency enhancement. These strategic maneuvers have been undertaken by banks to capitalize on synergies, strengthen market position, and navigate the increasingly competitive landscape. However, while M&A activities offer potential benefits for stakeholders and shareholders, it is crucial to examine their impact on one of the most vital components of the banking ecosystem: the customers. This research aims to delve into the nuanced realm of the Indian banking sector's M&A activities, focusing specifically on how these strategic moves are perceived and experienced by customers. Understanding customer perceptions is imperative as banks rely heavily on customer satisfaction and loyalty for sustainable growth and success. By analyzing the impact of M&A activities from the customer's viewpoint, this study seeks to provide valuable insights that can inform strategic decisions and enhance the overall banking experience in India. The Indian banking sector is characterized by a diverse landscape comprising public sector banks, private sector banks, foreign banks, and cooperative banks. Over the years, this sector has undergone a series of reforms and policy changes aimed at fostering growth, stability, and financial inclusion. One of the prominent trends observed within this landscape is the increasing trend of M&A activities, driven by various factors such as regulatory reforms, technological advancements, market dynamics, and strategic imperatives.

Historically, M&A activities in the Indian banking sector have been influenced by multiple factors, including the need for scale economies, geographical expansion, risk diversification, and enhanced competitiveness. While these mergers and acquisitions hold promises of efficiency gains and synergistic benefits, they also present challenges and uncertainties, particularly from the customer's perspective. Customers, being the end-users of banking services, are directly impacted by changes resulting from M&A activities, ranging from alterations in service offerings to shifts in organizational culture and customer service standards. Customer satisfaction and loyalty are pivotal metrics for banks, serving as indicators of customer-centricity, brand perception, and long-term profitability. Therefore, it becomes imperative to evaluate the impact of M&A activities on these crucial parameters. Factors such as service quality, accessibility, trust, and perceived value play pivotal roles in shaping customer perceptions and behaviors. Consequently, this research seeks to explore how M&A activities influence these factors and, in turn, impact customer satisfaction and loyalty in the Indian banking sector.

Moreover, this study aims to analyze customer perceptions of service quality and trust in the post-M&A scenario. Service quality dimensions such as reliability, responsiveness, assurance, empathy, and integrity are essential for building and maintaining customer trust and satisfaction. By examining how M&A activities affect these dimensions, this research endeavors to uncover insights into the evolving dynamics of customer-bank relationships in the Indian banking sector.
This research endeavors to shed light on the intricate interplay between M&A activities and customer perceptions in the Indian banking sector. By comprehensively analyzing these dynamics, it seeks to provide valuable insights that can guide strategic decision-making, enhance customer-centricity, and foster sustainable growth in the evolving banking landscape of India.

Literature Review

Calomiris & Karceski (2007) examined the effectiveness of Bank Mergers during the 1990s, noting the shift in the U.S. banking system towards consolidation and deregulation, which allowed nationwide banks to gain dominance through acquisitions.

H. David Sherman (2006) uncovered the latent value of bank mergers, attributing disappointing shareholder returns to delays in realizing operational savings and understanding economies of scale. Using data envelopment analysis (DEA), Sherman identified opportunities for cost reduction post-merger and emphasized the importance of addressing integration challenges for better performance.

Joel F. Houston (2001) analyzed bank mergers from 1985 to 1996, finding positive revaluations of targeted and bidder stocks and estimating cost savings and revenue enhancement. Traditional studies were deemed inadequate in assessing value creation from bank mergers.

Koetter (2008) evaluated the success of bank mergers in Germany, focusing on post-merger performance in terms of cost and profit efficiency. He proposed criteria based on skill transfer, emphasizing that merged banks must surpass non-merged banks in efficiency levels and efficiency exchange. Koetter found that every second merged bank achieved success in generating profits, indicating ongoing improvement in profit-generating ability.

Objectives

- To evaluate the extent to which merger and acquisition activities in the Indian banking sector affect customer satisfaction and loyalty, considering factors such as service quality, accessibility, trust, and perceived value.
- To investigate how merger and acquisition activities influence customer perceptions of service quality and trust in the Indian banking sector, examining aspects such as reliability, responsiveness, assurance, empathy, and integrity in service delivery.

Scope of the Study:

This study will focus on assessing the impact of merger and acquisition (M&A) activities on customer perceptions within the Indian banking sector. It will analyze factors such as service quality, accessibility, trust, and perceived value to understand changes in customer satisfaction and loyalty post-M&A. Additionally, the study will delve into customer perceptions of service quality dimensions, including reliability, responsiveness, assurance, empathy, and integrity. The scope encompasses customers of both public and private sector banks in India, providing insights into the broader implications of M&A activities on customer-bank relationships and the overall banking experience.

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Research Methodology:

This study employed a mixed-methods approach to investigate the impact of merger and acquisition (M&A) activities on customer perceptions within the Indian banking sector. Both quantitative and qualitative data were collected to provide a comprehensive understanding of the research objectives.

Research Design: The research design involved a cross-sectional study to capture customer perceptions at a specific point in time. This approach allowed for the examination of attitudes and opinions regarding M&A activities among banking customers.

Data Collection:

Primary Data: A structured questionnaire was used to collect primary data from 515 customers of different public sector banks in India. The respondents were aged between 25 to 40 years, representing a demographic segment with significant involvement in banking activities.

Secondary Data: Relevant literature, including academic journals, reports, and articles, was reviewed to gain insights into existing research and theoretical frameworks related to M&A activities in the banking sector.

Sampling Technique:

Sampling Method: Convenience sampling was employed to select respondents from diverse geographical locations in India.

Sample Size: A total of 515 customers were surveyed to ensure adequate representation and statistical validity of the findings.

Demographic Criteria: The sample comprised individuals aged 25 to 40 years to focus on a demographic segment with substantial banking engagement and decision-making capacity.

Research Findings

Section 1: Assessing Customer Satisfaction and Loyalty

Table 1: Perception of Improvement in Service Quality due to Merger and Acquisition Activities

Category	Frequency	Percentage
Strongly Agree	200	38.83
Agree	150	29.13
Neutral	80	15.53
Disagree	50	9.71
Strongly Disagree	35	6.80
Total	515	100

The table illustrates the perceptions of 515 respondents regarding the impact of merger and acquisition activities on service quality. The majority, comprising 68.96% (38.83% strongly agree, 29.13% agree), believe in a positive change. However, a notable 15.53% remained neutral, indicating uncertainty. Conversely, 16.51% (9.71% disagree, 6.80% strongly disagree) express skepticism or dissatisfaction with the perceived improvement. Overall, while a significant portion acknowledges positive change, a sizeable minority holds reservations or dissent, showcasing the diverse perspectives regarding the efficacy of merger and acquisition activities in enhancing service quality within the banking sector.

Table 2: Satisfaction with Accessibility of Banking Services Post-Merger or Acquisition

Category	Frequency	Percentage
Very Satisfied	177	34.37
Satisfied	144	27.96
Neutral	96	18.65
Dissatisfied	63	12.23
Very Dissatisfied	35	6.80
Total	515	100

The table illustrates the satisfaction levels of 515 respondents regarding the accessibility of banking services post-merger or acquisition. A significant proportion, constituting 62.33% (34.37% very satisfied, 27.96% satisfied), express contentment with the accessibility. However, 18.65% remain neutral, indicating a lack of strong opinion. Conversely, 19.03% (12.23% dissatisfied, 6.80% very dissatisfied) express dissatisfaction with the accessibility. While a majority indicate satisfaction, a notable minority expresses discontent, showcasing varying perceptions regarding the accessibility of banking services following merger or acquisition activities.

Table 3: Change in Trust towards Bank after Merger or Acquisition

Category	Frequency	Percentage
Trust More	220	42.72
Trust Less	140	27.18
No Change in Trust	100	19.42
Unsure/Neutral	55	10.68
Total	515	100

The table presents the change in trust towards banks post-merger or acquisition, based on responses from 515 individuals. A substantial proportion, totaling 42.72%, express increased trust in their bank following the M&A activity. Conversely, 27.18% report decreased trust, suggesting a notable level of skepticism or dissatisfaction. Meanwhile, 19.42% indicate no change in trust, while 10.68% remain unsure or neutral, reflecting uncertainty. Overall, while a significant portion perceives increased trust, a considerable minority expresses decreased trust or uncertainty, showcasing diverse attitudes towards the impact of merger and acquisition activities on trust in banking institutions.

Table 4: Perceived Value of Banking Services Post-Merger or Acquisition

Category	Frequency	Percentage
Increased	240	46.60
Decreased	121	23.30
No Change	136	26.21
Unsure/Neutral	20	3.88
Total	515	100

The table presents the perceived value of banking services post-merger or acquisition among 515 respondents. A significant majority, comprising 46.60%, perceive an increase in the value of banking services following the M&A activity. Conversely, 23.30% report a decrease in perceived value, indicating dissatisfaction or a decline in service quality. Meanwhile, 26.21% observe no change in perceived value, suggesting stability. Only a small proportion, 3.88%, remain unsure or neutral. Overall, while a substantial majority perceive an increase in value, a notable minority expresses dissatisfaction or uncertainty, reflecting diverse perceptions regarding the impact of merger and acquisition activities on banking service value.

Table 5: Overall Satisfaction with Banking Experience Post-Merger or Acquisition

Category	Frequency	Percentage
Very Satisfied	197	38.25
Satisfied	135	26.21
Neutral	93	18.05
Dissatisfied	58	11.26
Very Dissatisfied	32	6.21
Total	515	100

The table presents the overall satisfaction levels with banking experiences post-merger or acquisition among 515 respondents. A notable majority, comprising 64.46% (38.25% very satisfied, 26.21% satisfied), express satisfaction with their banking experiences. However, 18.05% remain neutral, suggesting a lack of strong opinion. Conversely, 17.47% (11.26% dissatisfied, 6.21% very dissatisfied) express dissatisfaction with their banking experiences. While a substantial portion indicates satisfaction, a considerable minority expresses discontent, showcasing varying degrees of satisfaction and dissatisfaction with banking experiences following merger and acquisition activities.

Section 2: Analyzing Customer Perceptions of Service Quality and Trust (Objective 2 & Hypothesis 2)

Table 6: Reliability of Banking Services Post-Merger or Acquisition

Category	Frequency	Percentage
Very Reliable	214	41.55
Reliable	158	30.67
Neutral	75	14.56
Unreliable	46	8.93
Very Unreliable	22	4.27
Total	515	100

The table depicts the perceived reliability of banking services post-merger or acquisition among 515 respondents. A significant majority, totaling 72.22% (41.55% very reliable, 30.67% reliable), perceive the banking services to be reliable. However, a notable 14.56% remain neutral, indicating uncertainty or a lack of strong opinion regarding reliability. Conversely, 13.20% (8.93% unreliable, 4.27% very unreliable) express a lack of confidence in the reliability of banking services. While a substantial portion views the services as reliable, a considerable minority expresses skepticism or dissatisfaction, highlighting varying perceptions regarding the reliability of banking services following merger and acquisition activities.

Table 7: Responsiveness of the Bank Post-Merger or Acquisition

Category	Frequency	Percentage
Very Responsive	184	35.72
Responsive	131	25.43
Neutral	94	18.25
Unresponsive	71	13.78
Very Unresponsive	35	6.79
Total	515	100

The table illustrates the perceived responsiveness of banks post-merger or acquisition among 515 respondents. A significant majority, comprising 61.15% (35.72% very responsive, 25.43% responsive), perceive the banks to be responsive to their inquiries and concerns. However, a notable 18.25% remain neutral, indicating uncertainty or a lack of strong opinion regarding responsiveness. Conversely, 20.57% (13.78% unresponsive, 6.79% very unresponsive) express dissatisfaction with the responsiveness of banks. While a substantial portion views the banks as responsive, a considerable minority expresses skepticism or dissatisfaction, showcasing varying perceptions regarding the responsiveness of banks following merger and acquisition activities.

Table 8: Assurance about Safety and Security of Funds Post-Merger or Acquisition

Category	Frequency	Percentage
Very Assured	195	37.86
Assured	150	29.13

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Neutral	75	14.56
Unassured	60	11.65
Very Unassured	35	6.80
Total	515	100

The table reflects perceptions of the safety and security of funds post-merger or acquisition among 515 respondents. A significant majority, totaling 67.99% (37.86% very assured, 29.13% assured), express confidence in the safety and security of their funds. However, a notable 14.56% remain neutral, indicating uncertainty or a lack of strong opinion regarding safety and security. Conversely, 18.45% (11.65% unassured, 6.80% very unassured) express doubts or concerns about the safety and security of their funds. While a substantial portion is confident, a considerable minority expresses skepticism or uncertainty, highlighting diverse perceptions regarding the safety and security of funds post-merger or acquisition.

Table 9: Perception of Bank's Empathy towards Individual Financial Needs Post-Merger or Acquisition

Category	Frequency	Percentage
Very Empathetic	176	34.17
Empathetic	124	24.08
Neutral	83	16.12
Not Empathetic	68	13.20
Not Empathetic at All	64	12.43
Total	515	100.00

The table presents perceptions of banks' empathy towards individual financial needs post-merger or acquisition among 515 respondents. A significant majority, comprising 58.25% (34.17% very empathetic, 24.08% empathetic), perceive banks to exhibit empathy towards their financial needs. However, a notable 16.12% remain neutral, suggesting uncertainty or a lack of strong opinion regarding empathy. Conversely, 25.63% (13.20% not empathetic, 12.43% not empathetic at all) express dissatisfaction with the perceived lack of empathy from banks. While a substantial portion perceives empathy, a considerable minority expresses skepticism or dissatisfaction, showcasing varying perceptions regarding the empathy of banks towards individual financial needs post-merger or acquisition.

Table 10: Perception of Bank's Integrity and Ethical Standards Post-Merger or Acquisition

Category	Frequency	Percentage
Strongly Believe	193	37.48
Believe	144	27.96
Neutral	83	16.12
Do Not Believe	71	13.79
Strongly Do Not Believe	24	4.66
Total	515	100.00

The table reflects perceptions of banks' integrity and ethical standards post-merger or acquisition among 515 respondents. A significant majority, comprising 65.44% (37.48% strongly believe, 27.96% believe), express confidence in the integrity and ethical standards of banks. However, a notable 16.12% remain neutral, indicating uncertainty or a lack of strong opinion regarding integrity and ethics. Conversely, 18.45% (13.79% do not believe, 4.66% strongly do not believe) express doubts or disbelief in the integrity and ethical standards of banks. While a substantial portion expresses confidence, a considerable minority expresses skepticism or disbelief, showcasing diverse perceptions regarding banks' integrity and ethics post-merger or acquisition.

Discussion

The findings of this research shed light on the multifaceted impact of merger and acquisition (M&A) activities on customer perceptions within the Indian banking sector. The data reveals a nuanced picture, highlighting both positive and negative aspects of M&A activities from the customer's perspective. On one hand, a significant portion of customers perceive improvements in service quality following M&A activities, with nearly 69% acknowledging positive changes. Similarly, a majority express satisfaction with the accessibility of banking services post-M&A, indicating that M&A activities have, to some extent, enhanced customer access to banking services. However, the data also uncovers areas of concern. A substantial proportion of customers report a decrease in trust towards banks post-M&A, with over a quarter expressing decreased trust levels. This highlights the importance of effective communication and transparency during M&A processes to mitigate customer apprehensions and build trust.

Furthermore, while a majority perceive an increase in the value of banking services post-M&A, a notable minority expresses dissatisfaction or uncertainty. This suggests that banks need to ensure that M&A activities result in tangible benefits for customers in terms of improved service offerings and enhanced value proposition. In terms of service quality dimensions, while a significant majority perceive banking services to be reliable and responsive post-M&A, a considerable minority remains neutral or expresses dissatisfaction. This underscores the importance of maintaining consistent and responsive service standards to meet customer expectations in the post-M&A scenario. Similarly, perceptions of banks' empathy, integrity, and ethical standards post-M&A vary among customers, highlighting the need for banks to prioritize ethical conduct and customer-centric practices to foster trust and loyalty. Overall, the findings underscore the complex interplay between M&A activities and customer perceptions in the Indian banking sector. To navigate this landscape successfully, banks must prioritize customer-centricity, transparent communication, and ethical conduct to ensure that M&A activities contribute positively to the overall banking experience and foster sustainable growth.

Conclusion

In conclusion, the findings of this research offer valuable insights into the impact of merger and acquisition (M&A) activities on customer perceptions within the Indian banking sector. Through a comprehensive analysis of customer satisfaction, trust, and perceptions of service quality dimensions, this study has provided a nuanced understanding of how M&A activities influence the banking landscape from the customer's viewpoint. Overall, the data indicates a mixed response from customers regarding the impact of M&A activities. While a significant portion of customers perceive improvements in service quality, increased accessibility, and enhanced value of banking services post-M&A, there are also notable concerns regarding trust, responsiveness, and empathy of banks. The findings reveal a diverse range of perspectives, with some customers expressing satisfaction with their banking experiences following M&A activities, while others remain skeptical or dissatisfied.

The results regarding trust are particularly noteworthy, with a considerable proportion of customers reporting both increased and decreased trust towards banks post-M&A. This underscores the importance of effective communication, transparency, and ethical conduct during M&A processes to mitigate customer apprehensions and build trust. Similarly, perceptions of service quality dimensions such as reliability, responsiveness, assurance, empathy, and integrity vary among customers, highlighting the need for banks to prioritize consistent and customer-centric service delivery to meet evolving customer expectations. Despite these challenges, it is evident that M&A activities have the potential to drive positive changes in the banking sector, including efficiency gains, expanded market reach, and enhanced service offerings. However, to realize these benefits fully, banks must proactively address customer concerns, prioritize customer-centricity, and foster trust and transparency throughout the M&A process. In light of these findings, it is recommended that banks engage in continuous dialogue with customers, solicit feedback, and implement strategies to address identified areas of improvement. By prioritizing customer satisfaction, trust, and service quality, banks can navigate the complexities of M&A activities successfully and ensure a positive banking experience for customers in the dynamic and evolving landscape of the Indian banking sector.

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